OFFICE OF FINANCIAL & PROGRAM AUDIT

March 2011

Quarterly Report

FAIRFAX COUNTY BOARD OF SUPERVISORS
AUDITOR OF THE BOARD

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Office of Financial & Program Audit

QUARTERLY REPORT

EXECUTIVE SUMMARY

Dulles Metrorail Project

OFPA continues to monitor the Dulles Corridor Metrorail project around four risk factors: 1) Project Cost Structure, 2) Start of Revenue Service, 3) Funding Obligations, and 4) Phase II.

The Design Build Contract has recorded change orders of 1.15% of the contract amount, with 38.65% of the contracted amount expended. MWAA assesses this main construction component of the Project as 29% complete. Utility Relocation has recorded change orders of 17.72% of the contract amount. This is .26% greater than the amount reported last quarter. MWAA assesses the relocation activity as 99% complete. Approximately 70% of the Project's $297.7 million contingency funds have been committed. Approximately 66% of the Project's $485.7 million allowance budget has been committed.

The overall project schedule changed from a -97 days schedule lapse as reported in the last report to -113 in December. In January, plans to correct the majority of this lapse were in negotiation resulting in the planned recovery of 106 days. These changes will result in a reduction of the schedule lapse to -7 days.

Phase 1 funding obligations have not changed. The cost estimates for Phase 2 are still expected in the summer of 2011.

Cable Communications Fund Review

Franchise fees paid by cable operators are the County's primary source of cable communications revenue. Fairfax County serves as the local franchise authority for cable television systems within the County and has entered into franchise agreements with three cable operators: Cox, Comcast, and Verizon. Under the terms of the franchise agreements, the County receives franchise fees calculated at 5% of the cable operators' gross revenues as compensation for cable-related county costs and the operators' use of public rights-of-way and public land. In fiscal year 2010, the County received $13.8 million in cable franchise fees. The Board should consider increasing the General Fund transfer for fiscal year 2012 by $1.3 million. At a future point, the Board may want to consider depositing the cable franchise fee revenues directly into the General Fund.

Solid Waste Funds Reserves Review

The County has three primary solid waste disposal funds: Refuse Disposal (Fund 110), Energy Resource/Recovery Facility (Fund 112), and I-95 Landfill (Fund 114). Fund 112 supports the management of the contract for the Waste-to-Energy Facility, which is owned and operated by Covanta. The tipping fee rate stabilization reserves in Fund 112 are expected to increase from $10 million in fiscal year 2010 to $25 million in fiscal year 2012. Since fiscal year 2004, the General Fund has subsidized approximately $1.7 million per year in property tax payments for the Waste-to-Energy Facility. The Board should consider reducing or eliminating the General Fund subsidy of Covanta's property taxes. In addition, the Board should consider using a portion of available reserves in the Refuse Disposal fund and Energy/Resource Recovery Facility fund (to cover future landfill liability costs that are not supported by the I-95 Landfill fund. Using the available estimates for fiscal year 2010, this could result in a future potential savings to the General Fund of $8 million over a 30-year period.

Revenue Analysis Reviews

The number of county departments with billable revenue in the millions is relatively small. The Revenue Analysis Study that began this quarter focused on two of the largest sources of billable revenue, the School Age Child Care (SACC) Program and the Emergency Medical Services (EMS) Transport Fee. Both programs receive General Fund support and OFPA found opportunities to reduce that support by approximately $1.2 million with payment incentives and renewed emphasis on insurance carrier collections. OFPA's work on revenue areas will continue. One piece of the analysis that is continuing is billable revenue for Police expenses related to reimbursable overtime. OFPA anticipates reporting back to the committee at the June 28th meeting with more information on this continuing study.

Transportation Grants Review

The County receives transportation grants from both federal and state agencies. Revenues from these grants are used for a variety of transportation projects, including roadway improvements, transit and parking facility construction, and trails maintenance. OFPA identified at least 23 active transportation grants with a total estimated value of $83 million. The County does not have a centralized repository for information and documentation related to transportation grants and does not account for transportation grants in a consistent manner within its financial system, making it difficult to effectively identify and track revenues and expenditures related to transportation grants. The results of our review indicated a lag between transportation grant expenditures and revenues, which is an indication that grant reimbursement requests are not being submitted in a timely manner. It is important to identify eligible grant expenditures and request reimbursement as soon as possible to maximize state and federal revenues that are available to offset the costs paid for with County funds.

Ongoing Study Areas

There are three study areas that are in the preliminary phases of review and are therefore not discussed in this quarterly report. These areas are: (1) the Department of Housing and Community Development, (2) the nonprofit review, and (3) future construction escrows. The future construction escrow account contains money deposited by developers for construction that is going to take place in the future. An example provided to us was a situation where a cul-de-sac is eventually going to be cut through to extend a road. Another might be a sidewalk that could not be built until the sidewalks on either side of it had been completed. OFPA is working with several county departments in this review. Our primary contact is with the Department of Public Works and Environmental Services.

STUDY BRIEFINGS

DULLES METRORAIL PROJECT

The Audit Committee requested OFPA to monitor the Dulles Corridor Metrorail Project (Project) with a focus on the project costs and project timeframes. Current estimates for the project place total costs at approximately $6.5 billion (Phase 1 & 2). OFPA is tracking four risk areas: 1) Project Cost Structure, 2) Start of Revenue Service, 3) Funding Obligations, and 4) Phase II.

I. Project Cost Structure

A. Change Orders

The MWAA report divides change orders into two broad categories: (1) Amended and Restated Design Build (contract), and (2) Utility Relocation. Through January 2011, there were $19.8 million in total changes to the Amended and Restated category, which represents 1.15% of the original total contract amount.

There have been $22.8 million in total changes to the Utility Relocation category, which represents 17.72% of the total original contract amount. MWAA assesses this project phase as 99% complete.

The following table presents summary information regarding the change orders, a comparison between full funding and expenditures to date, and the critical path timeline. At the Audit Committee's request, the table has been expanded to include a percent complete of the total project and to show changes based on the current cost estimate to completion. Continuing the preparation of this summary will enable the Committee to easily assess the month-to-month changes in these areas. We will present the information from the last three MWAA Monthly Progress Reports. The complete schedules recapping the MWAA activity from April 2010 forward are available on request.

Summary of Dulles Metrorail Monthly Cost Report

	November-10	December-10	January-11
Amended and Restated Design Build Change Orders			
Design Build, w/Highways (original)	$ 1,712,504,538	$ 1,712,504,538	$ 1,712,504,538
Design Build, w/Highways (est. at completion)	$ 1,802,709,730	$ 1,808,616,087	$ 1,838,955,494
Monthly Changes $	$ 2,591,287	$ 126,706	$ -
Change to Date $	$ 19,652,531	$ 19,779,237	$ 19,779,237
Expended to Date	$ 621,967,027	$ 667,411,877	$ 710,718,699
Spend Down % of Original Contract	36.32%	38.97%	41.50%
Spend Down % of Estimate at Completion	34.50%	36.90%	38.65%
Monthly Changes % of Original Contract	0.15%	0.01%	0.00%
Changes to Date % of Original Contract	1.15%	1.15%	1.15%
MWAA Stated % Complete	25%	27%	29%
Utility Relocation Change Orders			
Utility Relocation Contract (original)	$ 129,016,151	$ 129,016,151	$ 129,016,151
Utility Relocation Contract (est. at completion)	$ 166,462,269	$ 172,149,775	$ 172,149,775
Monthly Changes $	$ -	$ -	$ -
Change to Date $	$ 22,859,781	$ 22,859,781	$ 22,859,791
Expended to Date	$ 140,351,026	$ 146,469,721	$ 148,637,685
Spend Down % of Original Contract	108.79%	113.53%	115.21%
Spend Down % of Estimate at Completion	84.31%	85.08%	86.34%
Monthly Changes % of Original Contract	0.00%	0.00%	0.00%
Changes to Date % of Original Contract	17.72%	17.72%	17.72%
MWAA Stated % Complete	99%	99%	99%
FFGA (Estimate at Completion)			
Right of Way	$ 67,795,262	$ 67,795,262	$ 67,795,262
WMATA; Vehicles, Procurement & Proj Mgmt	$ 271,635,628	$ 271,635,628	$ 271,635,628
Preliminary Engineering	$ 100,730,999	$ 100,730,999	$ 100,730,999
MWAA; Proj Mgmt Support & Gen Conditions*	$ 145,196,459	$ 144,960,889	$ 190,109,795
FFGA Contingency	$ 173,655,161	$ 164,190,046	$ 88,701,733
FFGA Finance Cost	$ 509,984,571	$ 509,984,571	$ 509,984,571
Original Amount	$ 1,364,904,075	$ 1,364,904,075	$ 1,364,904,075
Estimate at Completion	$ 1,268,998,080	$ 1,259,297,395	$ 1,228,957,988
Expended to Date	$ 301,560,225	$ 302,931,659	$ 308,644,455
Spend Down % of Original Contract	22.09%	22.19%	22.61%
Spend Down % of Est. at Completion	23.76%	24.06%	25.11%
Interrelated Hwy (Estimates at Completion)			
Right of Way	$ 19,899,879	$ 19,899,879	$ 19,899,879
MWAA; General Conditions*	$ 1,415,256	$ 1,415,256	$ 1,415,256
Contingency	$ 6,194,647	$ 4,301,471	$ 4,301,471
Original Amount	$ 59,255,098	$ 59,255,098	$ 59,255,098
Estimate at Completion	$ 27,509,782	$ 25,616,606	$ 25,616,606
Expended to Date	$ 16,538,573	$ 18,346,128	$ 18,489,523
Spend Down % of Original Contract	27.91%	30.96%	31.20%
Spend Down % of Est. At Completion	60.12%	71.62%	72.18%
Monthly Cost Report			
Total Project Cost	$ 3,265,679,864	$ 3,265,679,863	$ 3,265,679,863
Expenditure to Date	$ 1,080,416,852	$ 1,135,159,385	$ 1,186,490,362
Estimate to Complete	$ 2,185,263,011	$ 2,130,520,478	$ 2,079,189,501
Estimate at Completion	$ 3,265,679,864	$ 3,265,679,863	$ 3,265,679,863
Percent Expended	33.08%	34.76%	36.33%
Critical Path Timeline			
Variance from Official Start Date of 12/4/13	-111	-113	-7
Unofficial Revised Start of Revenue Service	March 25, 2014	March 27, 2014	December 11, 2013

Source: MWAA Monthly Progress Reports from November 2010 through January 2011.

B. Cost Contingency Use

The tracking of contingency fund use is helpful in monitoring the progression of a project and its financial commitments. Contingency funds are classified as federal and non-federal and are tracked separately by MWAA. In the event there is unspent contingency funds in one project phase, those funds are moved to the Project's contingency reserve account. Any positive amount in that reserve account is used prior to the contingency allocation for the next project phase. As shown in the table below, the Full Funding Grant Agreement (FFGA) federal contingency had a starting balance of $297.7 million. Through project phases 1 - 3 and 5, $173.7 million has been utilized.

CONTIN. PHASE #	CONTIN. RESERVE	DESCRIPTION	PHASE AUTHORIZATION	CONTINGENCY RESERVE	UTILIZED	REMAINING
1		FFGA	59,000,000		22,179,347	36,820,653
	1R	Contingency Reserve From Phase 1		36,820,653	36,820,653	0
2		Station Design Complete (Note 1)	40,000,000		4,429,829	35,570,171
	2R	Contingency Reserve From Phase 2		35,570,171	32,457,931	3,112,240
3		Utility Relocation Complete	40,000,000		0	40,000,000
	3R	Contingency Reserve From Phase 3		43,112,240	0	43,112,240
5		NATM Tunnel Mined	38,000,000			38,000,000
	5R	Contingency Reserve From Phase 5		81,112,240	77,860,143	3,252,098
4		Aerial and Station Foundations Complete	23,000,000			23,000,000
6		K-Line Tie-In Complete	19,000,000			
7		Guideway Complete	19,000,000			
8		Train Control Complete	17,000,000			
9		Substantial Completion	8,000,000			
10		Revenue Operations Date	34,762,579			
TOTAL			**297,762,579**		**$173,747,902**	**$124,014,677**

Source: MWAA progress report for January 2011 (Table 17).

Note 1: This amount is subject to adjustment pending the Airports Authority's decision on the FTA directive to fund the costs associated with reintroduction of non-federal funding.

It is important to note from the table that the contingency utilization was not established on a linear basis. Meaning earlier project phases are allocated a greater percentage of the contingency than the latter stages, due to their size and complexity.

An additional $35.3 million of Federal Contingency has been obligated for project phases 4 through 10. Since those obligations have not been utilized they are detailed outside of the above MWAA table in their monthly report. To summarize the status of the Federal Contingency, of the original $297.7 million budget, $173.7 million has been utilized and $35.3 million obligated – leaving a balance of $88.7 million still available through January 2011, or 29.8% of the original allocation. There are approximately $64.8 million in possible contingency change orders under evaluation and negotiation by MWAA.

C. Allowance Items

There is a $485.7 million budget for allowance items. There are 17 major allowance items, each of which may contain several sub-projects. Total awarded costs through the January 2011 report are $319.4 million, representing 65.74% of the allowance budget. This is an increase of approximately 15% from October. A listing of allowance item descriptions follows:

ALLOWANCE ITEM #	DESCRIPTION	ALLOWANCE BUDGET W/COMMODITY ESCALATION
C-1	Trackwork	81,431,330
C-2	Wiehle Parking Garage (By others)	29,091,684
C-3	Station Finishes & MEP	88,834,891
C-4	WFCY Sound and Box Platforms	6,686,211
C-5	Pedestrian Bridges	13,614,891
C-6	Site Development	44,898,579
C-6A	Site Development -Non Fed	18,687,604
C-7	Installation of Public Art	633,862
C-8	Communications and Security	25,827,090
C-8A	Communications and Security -Non Fed	
C-9	Fire Suppression	2,667,214
C-10	Elevators and Escalators	38,732,282
C-11	Spare Parts	5,515,011
C-12	WFCY S&I Building	29,039,015
C-13	Traction Power Supply	59,318,269
C-13A	Traction Power Supply -Non Fed	716,079
C-14	Automatic Train Control (ATC) Supply	27,944,840
C-14A	ATC Supply -Non Fed	
C-16	Contact Rail	10,555,341
C-17	Parking at Wiehle Ave. During Construction	0
TOTAL ALLOWANCE ITEMS -FEDERAL and NON-FEDERAL		**485,773,879**

Source: MWAA January 2011 Monthly Report – Table 9

D. Contingency and Allowance Items Under Review

There is a significant project team review and verification process for costs prior to their assignment against the respective budget balances noted in the Sections above. Through the October report (the latest available for the January Audit Committee Meeting) the percent of the Contingency and Allowance item budgets being utilized was fairly consistent. This changed significantly during the current reporting period as the table below shows.

Budget	October	November	December	January
Contingency Used/Obligated	40.64%	41.68%	44.86%	70.21%
Allowance Item Used	50.59%	50.60%	52.17%	65.74%

Likewise, the current costs under review for Allowance Items increased significantly during this report period. Given the substantial amount of negotiation, reclassification and cost allocation undertaken by the MWAA Project Team, it is very difficult to project with certainty the determination of the final cost of items currently under review.

The MWAA monthly reports show a difference of approximately $77 million between the Project Team and Dulles Transit Partners (DTP) on Allowance Items under active review.

Utilizing the reported DTP requests for change orders and the lower or budgeted amount for Allowance Items, the pending utilization for both these budgets increased significantly from October to January. Considering the costs under review, and expecting that these costs will change, it is apparent that the majority of the Contingency and Allowance Item budgets have significant demands on them:

Percent of Budget Committed Inclusive of Costs Under Review/Negotiation				
	October	**November**	**December**	**January**
Contingency	54.57%	55.52%	65.40%	91.98%
Allowance Items	73.02%	69.35%	76.48%	86.51%

II. Start of Revenue Service for Phase I

This section discusses areas that present a potential risk to the start of revenue service, exclusive of overall construction and engineering risks.

A. Overall Project Schedule

From November 2010 through January 2011 MWAA reported project delays reaching a high of 113 days in December to the January (and current) estimate of a 7 day delay. The MWAA report for January now anticipates the start of revenue operations as December 11, 2013. The recovery of the prior schedule lag is contained in a proposed recovery schedule presented to MWAA by DTP. As of our March discussions with MWAA, the proposal had not been formerly adopted. The proposed recovery schedule is considered 'aggressive but achievable' by the MWAA project team.[1] Citing continued disagreement over the West Falls Church Yard, MWAA reports "…the Project, excluding the WFC Yard (WFC), is approximately 7 calendar days behind schedule relative to the SSCD."[2] (SSCD is scheduled substantial completion date.)

B. West Falls Church Yard

Disagreement between the MWAA project team and DTP on the schedule for WFC continues. WFC was removed from the project critical path in the MWAA June report. MWAA has not accepted the DTP plans for the WFC Yard as it contains a completion date in January 2014. The Project Team's analysis is that the Yard can be completed by the original scheduled date of July 31, 2013.

[1] MWAA January Monthly Progress Report, p.40
[2] MWAA January Monthly Progress Report, p.42

Maintaining the original completion date would remove any impact on the start of revenue operations. DTP was expected to resubmit the final design in November 2010. The risk assessment section of the MWAA report notes that the risk factors related to WFC cost may be decreasing while the risk factors related to the schedule may be increasing.

C. Rail Car - Capacity, Delivery and Testing

MWAA and WMATA face challenges in having the new rail cars delivered to the Silver Line with significant lead time to allow for full operational testing and deployment on the new (Phase I) rail line. The procurement cycle has been completed for the rail cars and did incur cost overruns. MWAA and WMATA have been exploring ways to mitigate the overruns. MWAA is removing Vehicle Procurement from their risk matrix. MWAA notes "As there is no specified cost penalty to the Project for failure to provide new cars for the Revenue Operations Date, the schedule risk *remains Unchanged since September as well*." (MWAA italics) MWAA further notes that having completed the procurement they will remove this risk from their tracking matrix.

OFPA requested assurance from WMATA that there was sufficient excess rail car capacity to meet Silver Line testing needs and start of revenue service if delivery of the new cars is delayed. WMATA is noted in the MWAA monthly report as stating that they will be able to support the Project needs with existing rail cars if the supplier is unable to improve the delivery schedule.

The projected delivery schedule for the first rail cars (pilot set of four) is based on 30 months from the notice to the builder to start work. The notice to the contractor was sent on August 16, 2010. This results in the first rail cars arriving in approximately January of 2013 with the order being complete in the mid part of 2014.

III. FUNDING OBLIGATIONS OF FAIRFAX COUNTY

Based on the funding agreement, Fairfax County is obligated to pay 16.1% of the total project costs. If Fairfax County decides not to proceed with Phase II of the project, the obligations would be for 16.1% of the final cost for Phase I. The Phase I activities will continue in 2011 through at least the early part of 2014. Over the next 12 to 18 months, as significant project phases are completed, the ability of MWAA to complete the Phase I - Design Build contract within budget will become apparent. With this timeline there will still be 18 to 24 months before Phase I is scheduled to be complete.

The cost estimates for Phase II are expected in late spring/early summer of 2011. Once the estimates are made official, Fairfax County will have 90 days to commit to proceeding with the second phase of the project. Under the terms of the existing funding agreement, the County will be obligated for 16.1% of the total cost of the project net of any additional Federal or Commonwealth project funding.

IV. Phase II

A. Phase II Costs

The Phase II cost estimates have risen from a 2009 preliminary estimate of $2.5 billion to a 2010 preliminary estimate of $3.834 billion. Much of this increase and public focus has been directed to the Dulles Airport station.

The Dulles Station placement is one of the major cost drivers for Phase II. The station placement was originally planned to be approximately 550 feet from the Dulles Airport terminal, and underground. Potential changes add an additional 600 feet to this distance making the total distance to the terminal 1,150 feet, but propose an above ground (aerial) station to reduce costs. MWAA is considering alternative alignments, station locations and above/below ground approaches in an effort to obtain significant cost reductions.

Phase II costs will impact Fairfax County in two ways. The County's 16.1% share will change proportionate to any cost changes and Dulles Toll Road revenues will be required to fund the balance of any cost increases.

B. Competitive Bid Process

The Phase II construction contract will be placed out for competitive bidding. The Phase I contract was awarded on a design build basis. This limited competition to just firms which could produce an engineering design solution in conjunction with the ability to undertake the construction.

CABLE COMMUNICATIONS FUND REVIEW

I. Overview of Cable Communications Revenues

Franchise fees paid by cable operators are the County's primary source of cable communications revenue. Fairfax County serves as the local franchise authority for cable television systems within the County and has entered into franchise agreements with three cable operators: Cox, Comcast, and Verizon. Under the terms of the franchise agreements, the County receives franchise fees calculated at 5% of the cable operators' gross revenues as compensation for cable-related county costs and the operators' use of public rights-of-way and public land. In fiscal year 2010, the County received $13.8 million in cable franchise fees. [3]

In addition to cable franchise fees, the County also receives Public, Educational, and Governmental (PEG) grant support from the cable operators. The PEG grants are calculated at approximately 3% of the cable operators' gross revenues, less franchise fees. The PEG revenues support the County's Institutional Network (I-NET) and equipment grants. The I-NET is a network communications system that transmits video, voice, and data signals over optical fiber or coaxial cable between public entities. The I-NET supports the County's cable, phone, and data transmissions.

In 1982, the Board of Supervisors established a special revenue fund (Fund 105) to separately account for the revenues and expenditures related to cable communications. The Cable Communications Fund is managed by the Department of Cable and Consumer Services.

[3] In 2006, the Virginia Legislature enacted legislation that replaced the local cable franchise fees with a state-wide communications tax. Under the provisions of Chapter 780 of the 2006 Acts of Assembly, cable operators no longer make franchise fee payments directly to localities. Cable operators report these amounts to the Virginia Department of Taxation on a schedule submitted with their communications tax return. The Virginia Department of Taxation then remits the revenues to the County on a monthly basis. Although localities no longer collect their franchise fees directly, local governments retain the right to enforce franchise agreements and to review the cable operators' revenues.

The following table summarizes the cable communications fund activity for fiscal years 2008 through 2012:

Cable Communications Fund Activity (Fund 105)
Fiscal Years 2008 – 2012

	2008 Actual	2009 Actual	2010 Actual	2011 Revised Budget	2012 Advertised Budget
Revenues:					
Franchise Operating Fees	$ 11,242,037	$ 12,240,701	$ 13,892,262	$ 12,486,739	$ 14,171,496
I-Net and Equipment Grant	4,075,802	4,349,853	5,041,343	4,437,285	5,142,674
Miscellaneous Revenue	1,379	1,153	1,930	1,200	1,200
Fines and Penalties	10,000	27,500	18,700	-	-
Total Revenues	**$ 15,329,218**	**$ 16,619,207**	**$ 18,954,235**	**$ 16,925,224**	**$ 19,315,370**
Expenditures:					
Personnel Services	$ 2,989,518	$ 3,265,849	$ 3,796,519	$ 4,691,124	$ 4,951,569
Operating Expenses	3,761,261	2,987,487	4,379,629	10,771,546	5,698,567
Capital Equipment	512,217	3,526,229	235,394	921,834	300,000
Total Expenditures	**$ 7,262,996**	**$ 9,779,565**	**$ 8,411,542**	**$ 16,384,504**	**$ 10,950,136**
Transfers Out:					
General Fund (Fund 001)	$ 2,530,299	$ 5,204,492	$ 2,011,708	$ 2,729,399	$ 3,601,043
Schools Cable Services (Fund 192)	2,655,459	2,677,759	2,136,548	2,267,729	3,476,203
Schools Equipment (Fund 192)	250,000	250,000	250,000	250,000	250,000
Information Technology (Fund 104)		2,535,502	1,000,000	1,742,000	5,670,000
County Construction (Fund 303)		1,090,000	-	-	404,500
Public Safety Construction (Fund 312)		-	-	-	200,000
Technology Infrastructure (Fund 505)		1,814,103	1,814,103	1,814,103	1,814,103
Total Transfers Out	**$ 5,435,758**	**$ 13,571,856**	**$ 7,212,359**	**$ 8,803,231**	**$ 15,415,849**
Available Balance	**$ 24,921,554**	**$ 18,189,340**	**$ 21,519,673**	**$ 13,257,162**	**$ 6,206,547**

II. Cable Communications Revenues Support a Broad Range of Activities

Although there are no federal or state statutory restrictions on the use of cable franchise fee revenues, the County has limited its use of these revenues to "cable-related" activities.[4] This practice differs from other Virginia localities, which treat cable franchise fees as a general revenue source. These localities retain cable fee revenues in their General Fund to support police, fire, parks, libraries, and other government services.

In addition to supporting the County's public access station (Channel 16), cable communications revenues have been used to support the following activities:

- **Fairfax County Public Schools** - In 1998, the Fairfax County Board of Supervisors approved an annual transfer from the cable communications fund to Fairfax County Public Schools (FCPS) to support cable-related activities at the schools. The Board required FCPS to submit an annual report on the use of the transferred funds. For fiscal year 2010, FCPS reported that the transfer monies primarily supported 24 positions in FCPS Information Technology and 2 positions in the FCPS Department of Communications and Community Outreach.

- **General Fund Support** – Each year, a portion of cable fund revenues are transferred from the cable communications fund to the County's General Fund. The annual transfers to the General Fund have ranged from \$2.0 million to \$5.2 million. The County Executive's fiscal year 2012 proposed transfer to the General Fund is \$3.6 million, which represents 25% of projected franchise fee revenues.

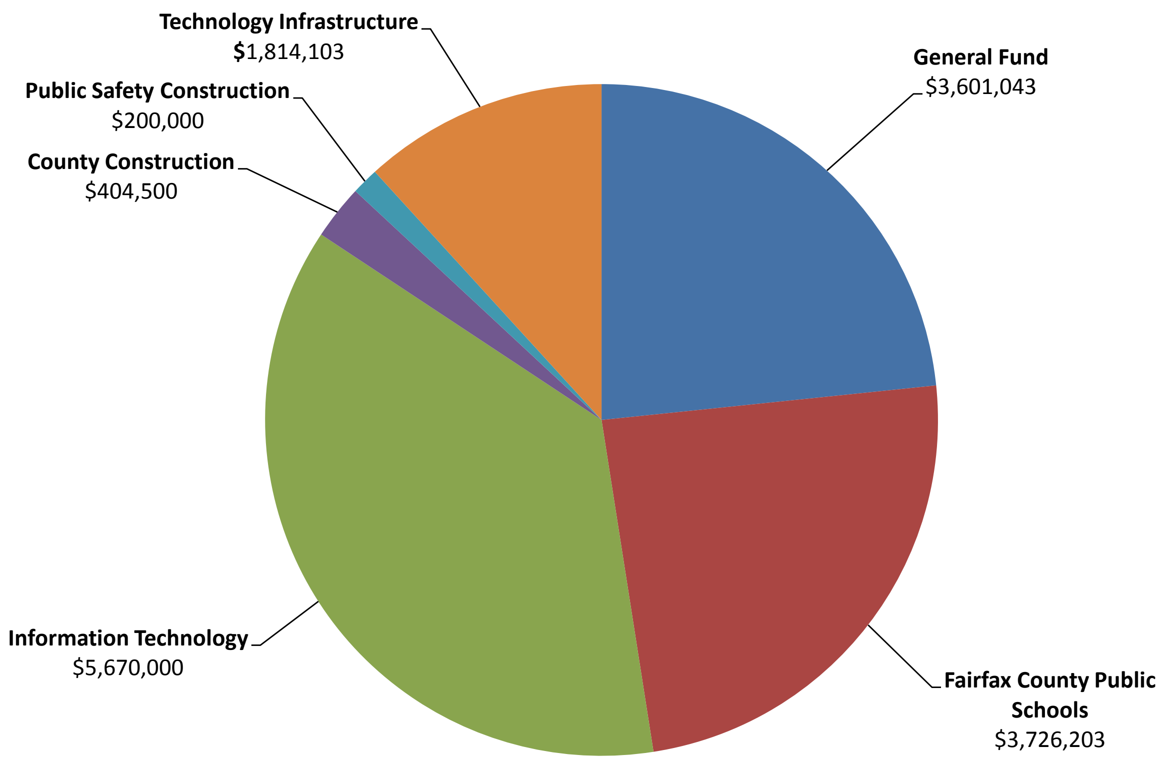
- **Information Technology** – Each year, a portion of cable fund revenues are transferred to the Information Technology and Technology Infrastructure funds. According to the County's Budget, these monies are used to support the I-NET and the Voice Network Modernization Project. The fiscal year 2012 proposed budget includes a \$3.9 million increase in the information technology transfer to support the purchase of in-car video technology in police cruisers and to support social media functionality.

- **County and Public Safety Construction** – The fiscal year 2012 proposed budget includes \$604,500 in transfers to the county and public safety construction funds. According to the fiscal year 2012 budget, these monies will be used to support the I-NET and courtroom renovations.

[4] The County's self-imposed limitation on the use of cable revenues is based on a 1993 legal opinion from the County Attorney's Office. The 1993 opinion states, "*In this environment, it seems prudent for the County to continue the present policy, but to continue its efforts to identify costs to the General Fund that can be reimbursed under the umbrella of cable-related activities.*"

The following chart provides a breakdown of the fiscal year 2012 proposed cable communications fund (Fund 105) transfers to other funds totaling $15,415,849.

Cable Communications (Fund 105) Transfers to Other Funds
FY 2012 Advertised Budget



III. Recommendations

- In consultation with the County Attorney's Office, the Board should consider increasing the transfer from the Cable Communications Fund (Fund 105) to the General Fund (Fund 001) by $1,358,981 for fiscal year 2012. Based on current revenue projections, the total amount of the transfer would increase from $3.6 million to $4.9 million in fiscal year 2012, which would result in $1.3 million in additional financial resources for the General Fund.

OFPA Proposed 2012 General Fund Transfer	$ 4,960,024
County Executive's Proposed 2012 General Fund Transfer	$ 3,601,043
Increase in Support to the General Fund (Difference)	**$ 1,358,981**

- The Department of Cable and Consumer Services should review the annual report submitted by FCPS regarding the schools' use of the cable communication transfer monies to ensure the report reconciles to the actual transfer amounts provided by the County.

- The Department of Cable and Consumer Services should conduct periodic reviews of the cable operators' gross revenues to ensure that the County is receiving revenues in accordance with the franchise operating agreements.

- At a future point, the Board may want to consider depositing the cable franchise fee revenues directly into the General Fund. In the interim, the Department of Cable and Consumer Services should continue efforts to identify opportunities to use available cable communications fund revenues to support other appropriate County activities.

SOLID WASTE FUNDS RESERVES REVIEW

I. Solid Waste Funds Overview

The County has three primary solid waste disposal funds: Refuse Disposal (Fund 110), Energy Resource/Recovery Facility (Fund 112), and I-95 Landfill (Fund 114). The Fairfax County Division of Solid Waste Disposal and Resource Recovery within the Department of Public Works and Environmental Services is responsible for managing these solid waste funds.

- **Refuse Disposal (Fund 110) –** This fund supports the collection, transport, and disposal of solid waste generated within Fairfax County. The primary operations of this fund include transporting refuse to the I-95 Waste-to-Energy Facility (discussed under Fund 112), the Recycling and Disposal Center, the Household Hazardous Waste Program, and the Ordinance Enforcement Program. All solid waste fees collected from County customers flow through Fund 110 to the other two funds.

- **Energy Resource/Recovery Facility (Fund 112) –** This fund supports the management of the contract for the I-95 Waste-to-Energy Facility, which is currently owned and operated by a private company, Covanta Fairfax, Inc. Under the terms of the agreement with Covanta, the County charges a disposal fee to users of the Waste-to-Energy Facility. The County then pays an agreed-upon disposal fee to Covanta. Revenues from the sale of electricity and recycled metals are used to offset the cost of the disposal fee the County pays to Covanta. According to the County's 2012 proposed budget, increasing revenues from electricity sales, metal recycling, and the final payment of the construction bonds that were used to finance the facility have allowed the County to keep down the disposal fees it charges to customers.

- **I-95 Landfill (Fund 114) –** This fund primarily supports the disposal of ash material generated from the Waste-to-Energy Facility and from other participating localities. The municipal solid waste section of the I-95 landfill closed in December 1995. The reserves in this fund are restricted to cover the costs of the I-95 Landfill including construction projects, future closure, and post-closure care costs.

Unlike the Fund 114 reserves, which are primarily restricted for landfill costs, the Division of Solid Waste Disposal and Resource Recovery has discretion in determining the future uses of available monies in Fund 110 and Fund 112. The table on the next page summarizes the Division's Fund 110 and Fund 112 reserve designations of available monies for fiscal years 2008 through fiscal year 2012.

Solid Waste Fund Reserves
Fiscal Years 2008 - 2012

Reserve Designations	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Revised Budget	FY 2012 Proposed Budget
Refuse Disposal (Fund 110):					
Construction Reserve	1,442,675		5,065,972	5,052,184	3,183,730
Equipment Reserve	3,037,975	1,114,785	1,879,285	2,049,038	1,835,918
Environmental Reserve			2,000,000	2,000,000	2,000,000
Operations and Maintenance Reserve			500,000	395,139	2,495,110
PC Replacement Reserve	63,967	24,495	61,293	85,634	64,853
Unreserved (no designation)	8,462,633	10,216,637	4,280,875		
Total Fund 110 Reserves	**13,007,250**	**11,355,917**	**13,787,425**	**9,581,995**	**9,579,611**
Waste-to-Energy Facility (Fund 112):					
Operations and Maintenance Reserve	16,097,730	15,287,310	10,078,204	10,276,758	10,000,000
Rate Stabilization Reserve	10,232,099	10,000,000	10,000,000	10,000,000	25,881,694
Tipping Fee Reserve	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Unreserved (no designation)	1,192,332				
Total Fund 112 Reserves	**29,022,161**	**26,787,310**	**21,578,204**	**21,776,758**	**37,381,694**

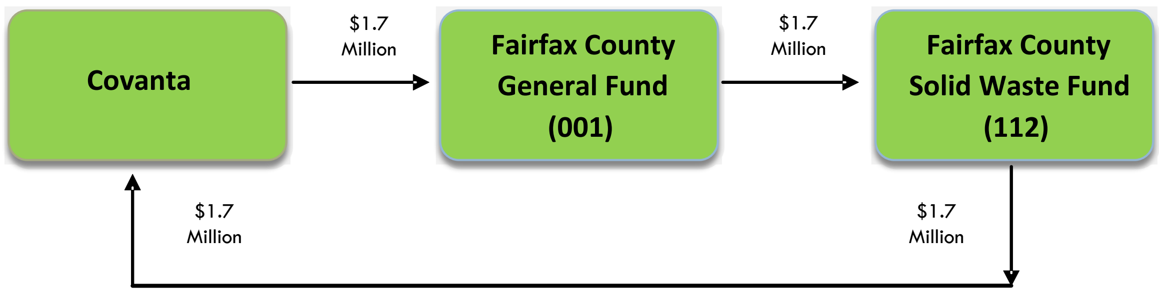
II. Subsidy of Solid Waste Facility Property Taxes

Fund 112 supports the management of the contract for the Waste-to-Energy Facility, which is owned and operated by Covanta. The County's agreement with Covanta specifies certain approved operating expenses that the County pays from Fund 112. Among the approved operating expenses are property taxes levied by the County. Since fiscal year 2004, Covanta has made an annual payment to the County (typically $1.7 million) for property taxes on the Waste-to-Energy Facility.[5]

The fiscal year 2003 Carryover Package to the Board established the following payment process for Covanta's property taxes: "*Covanta will pay the tax and then charge it to the County via Fund 112. The collected tax funds, which will be posted as General Fund revenue, will be returned to Fund 112 by a General Fund transfer*."

[5] The Waste-to-Energy Facility changed from tax-exempt to taxable status when the Lorton property was transferred from the federal government to the County in 2003.

Waste-to-Energy Facility Property Tax Payment Flow



OFPA requested an opinion from the County Attorney's Office on whether the General Fund subsidy of Covanta's property taxes could be eliminated or reduced. According to the County Attorney's Office, there is no legal requirement for such a General Fund transfer to Fund 112. The County made a business decision in 2003 to transfer Covanta's property tax payments from the General Fund to Fund 112 to help stabilize tipping fees.

The tipping fee rate stabilization reserves in Fund 112 are expected to increase from $10 million in fiscal year 2010 to $25 million in fiscal year 2012. The substantial increase in reserves is due in part to the reduction in operating expenses that resulted from the retirement of the construction bonds that were used to finance the facility. Given the significant decrease in operating expenses in Fund 112 for fiscal year 2012, OFPA recommends that the Board consider reducing or eliminating the General Fund transfer to Fund 112.

III. Solid Waste Fund Reserves Could be Used to Cover Future Landfill Liabilities

As we noted in our last quarterly report, the reserves in the I-95 Landfill Fund (Fund 114) do not cover the total estimated 30-year landfill closure and post-closure liability. For fiscal year 2010, a consultant determined that $59.5 million was necessary to cover the County's I-95 landfill closure and post closure costs for the next 30 years. However, only $52 million was available in the I-95 Landfill fund (Fund 114) in fiscal year 2010 – a difference of approximately $8 million. The I-95 Landfill has a remaining useful life of 20 to 30 years. These funds will continue to be increased to ultimately reach the required level at the time of final closure.

OFPA staff requested an opinion from the County Attorney's Office regarding the use of the available reserves in Fund 110 and Fund 112 to cover the closure liability costs in Fund 114, which would help mitigate the need for potential future General Fund support of these costs. According to the County Attorney's Office, there are no provisions that would prohibit the incremental transfer of available monies from Funds 110 and 112 to Fund 114. However, the County Attorney's Office did note that once available County monies are transferred into Fund 114, they could not be transferred out per a regional intergovernmental agreement.

IV. Recommendations

- Effective for fiscal year 2012, the Board should consider reducing or eliminating the annual transfer from the General Fund to the Solid Waste (Fund 112) to subsidize property taxes for the Waste-to-Energy Facility. This would result in an estimated $1.7 million savings to the General Fund each year.

- As the I-95 landfill nears the end of its useful life, the Board should consider using a portion of available reserves in the Refuse Disposal fund (Fund 110) and Energy/Resource Recovery Facility fund (Fund 112) to cover future landfill liability costs that are not supported by the I-95 Landfill fund (Fund 114), as appropriate. Using the available estimates for fiscal year 2010, this could result in a future potential savings to the General Fund of $8 million over a 30-year period.

REVENUE ANALYSIS STUDY

OFPA has begun a Revenue Analysis Study that is anticipated to continue in future quarters. To start this study, two significant revenue programs were chosen to examine this quarter. Both were reviewed with the focus of reducing General Fund support with better management of billable revenue and accounts receivable.

The School Aged Child Care (SACC) Program and the Emergency Management Service (EMS) Transport Fee are two General Fund programs with significant billable revenue and were chosen for this study for that reason. Billable revenue is revenue earned for which payment is not received at the time the services are provided. County agencies that generate billable revenue are responsible for developing and implementing a plan for managing their accounts receivable and for timely collection of billed revenue. Plans are approved by the Department of Finance (DOF). DOF provides assistance to agencies to help ensure compliance with accounting and reporting standards as well as ensure delinquent receivables are appropriately referred to collection. All bills (invoices) sent to customers/insurance carriers are required to be recorded as accounts receivable. Two points of interest in OFPA's work this quarter were:

- SACC incentives for timely payment
- EMS Transport Fees and the contracted administrative efforts to identify and complete insurance billing and collections from insurance companies

It is important to note DOF work on this issue as well. In addition to Billable Revenue Plans, DOF has a dedicated position (Accounts Receivable Manager) and in, recent months, DOF has actively engaged agencies with billable revenue in updating their plans and increasing their controls and efficiencies.

In addition, the Office of Internal Audit has conducted audits of both programs in recent years: SACC in January 2009 and EMS Transport Fees in January 2008. With combined billable revenue amounts exceeding $50 million in fiscal year 2010 and the audit of both programs completed in recent years, OFPA approached this study with a global General Fund perspective and focused on opportunities to better manage accounts receivable and further reduce overall General Fund support.

As part of this Revenue Analysis Study, OFPA also followed up on a revenue line item related to a previous study on public safety overtime, specifically reimbursable overtime for Police Services. OFPA's review of reimbursements for Police Service and the flat rate charged will continue into the next quarter.

SCHOOL AGE CHILD CARE (SACC) REVENUE ANALYSIS

The focus of this study is on SACC Program cost recovery and collections with specific emphasis on the level of General Fund support required by the program. In the course of this study, OFPA noted improvements made in collections since an audit conducted in fiscal year 2008 by the Fairfax County Internal Audit Office. During the period of the fiscal year 2008 audit, the SACC Program had outstanding receivables amounting to just over $4 million and had referred a number of severely delinquent accounts to a contracted collection agent for the first time. In this current study, OFPA found approximately $3.6 million in receivables with $2.6 million of those delinquencies referred to the collection service as of January 31st of this year. Delinquent accounts continue to challenge this program but routine referrals to a collection agency are reducing the overall aged receivables and improving collection rates.

I. SACC Program Overview

The SACC Program, initiated in 1979, is a county operated and state licensed child care program geared toward families of elementary aged children. The program is managed by the Fairfax County Department of Family Services, Office for Children (OFC). Before school, after school and after kindergarten child care is provided to more than 10,000 students annually in grades K-6. The child care centers operate in 136 county school facilities and one county recreational center. Two of the SACC sites serve individuals with multiple disabilities up to 21 years of age. Full day services are available during winter, spring and summer breaks.

II. SACC Funded by Fees for Service and the General Fund

<u>Fees for Service</u>

Fees are charged on a sliding scale based on adjusted household income. The adjusted household income (AHI) is calculated using the IRS child exemption allowance (updated annually).[6]

[6] AHI = gross household income – exemption allowance ($3,650/dependent under 18)

Monthly fees for the current school year (2010-2011) are as follows:

Adjusted Household Income	Before School	After School or After Kindergarten	% of current enrollment
$13,999 and below	$7	$11	7%
$14,000 - $17,999	$27	$75	2%
$18,000 - $21,999	$49	$109	1%
$22,000 - $24,999	$68	$151	1%
$25,000 - $27,999	$88	$194	1%
$28,000 – $31,999	$96	$215	1%
$32,000 - $35,999	$110	$238	1%
$36,000 - $39,999	$120	$259	.5%
$40,000 - $44,999	$129	$286	1%
$45,000 - $49,999	$132	$294	.5%
$50,000 and over	$136	$300	84%

Monthly fees are discounted 10% for a second child and 20% for the third child and each additional child enrolled from the same household.

84% of the children currently enrolled come from a family with an AHI that places them in the **$50,000 and over** bracket on the sliding fee scale.

SACC Program fees are set annually for the next school year after the completion of the budget process. Fees for the 2011-2012 School Year will be set after the Board adopts the fiscal year 2012 budget in April. OFC reports that fees have increased every year for the last five years in the range of 2.4 to 5 percent annually.

Fees charged for AHI at the **$50,000 and over** level cover the actual and estimated cost per child as reported in the FY 2012 Advertised Budget. (Fiscal Year 2010 actual cost per child was $2,966. Fiscal Year 2011 estimated cost per child is $2,973.)

General Fund Support

The amount of General Fund support for the SACC Program is trending toward an increase in fiscal year 2011 based on data provided by OFC. The SACC Program cost recovery rate has hovered between 70 and 80% since fiscal year 2008.

	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007
SACC Revenue	$33,000,000	$32,077,482	$28,716,568	$27,660,668	$26,412,389
SACC Expenses*	$42,597,065	$39,694,333	$39,390,813	$39,418,639	$38,646,727
General Fund Support	($9,597,065)	($7,616,851)	($10,674,245)	($11,757,971)	($12,234,338)
Cost Recovery	77.47%	80.81%	72.90%	70.17%	68.34%

*Expenses include fringe benefits and school transfer, which are not included in the SACC budget. The FY 2011 expense increase from FY 2010 was directly related to an increase in fringe benefit costs.

Source: OFC, SACC Program

The fiscal year 2011 revenue projection provided by staff of $33 million is $1.1 million more than the revised fiscal year 2011 revenue budget of $31,875,666.

III. Pattern of Delinquencies in Accounts Receivables

SACC fees are due monthly and are paid in advance of receiving the service. There are online, mail and in-person payment options. Delinquent notices are sent at the 30, 60 and 90 day marks. Delinquent customers also have the option of a payment plan. Cancellation-of-service notices are sent if accounts are still delinquent without payment plans at 75 days. 90 day old inactive accounts without payment plans are referred to the county's contracted vendor for collection services.

An analysis of aged receivables shows that, on average, approximately 12% of billed receivables are paid late. The SACC billing process currently does not impose any penalties for late payment. If a 10% late payment penalty were imposed, it would provide a payment incentive tool to help SACC Program staff manage receivables. Based on current delinquency rates, OFPA estimates that the SACC Program would net approximately $33,291 per month in late payment fees. Over 12 months, late payment fees could amount to as much as $399,497.

As mentioned earlier, 84% of the current year enrollment pays the full fee on the sliding scale. This top fee bracket is also the bracket that has the highest percentage of overall outstanding receivables. The table below is a point- in-time snapshot of aged receivables as of January 31, 2011, broken out by fee scale bracket. OFPA analysis of the last 12 months showed the amount of delinquencies as of January 31st were typical for any given month during the school year.

Fee Scale	Current Receivables as of 1/31/11*	Delinquencies 30 - 60	90-180	360	>360	% of Total Delinquent
$13,999 and below	$7,216	$10,620	$7,739	$3,676	$50,990	2%
$14,000 - $17,999	$7,578	$8,525	$4,365	$6,166	$67,113	3%
$18,000 - $21,999	$9,412	$10,554	$7,451	$12,889	$70,169	3%
$22,000 - $24,999	$7,651	$7,077	$10,922	$9,613	$67,253	3%
$25,000 - $27,999	$9,771	$9,098	$10,857	$14,878	$53,910	3%
$28,000 – $31,999	$11,917	$17,251	$13,298	$9,365	$86,067	4%
$32,000 - $35,999	$9,213	$6,382	$13,055	$15,935	$74,054	3%
$36,000 - $39,999	$6,794	$6,383	$7,174	$12,651	$45,683	2%
$40,000 - $44,999	$9,822	$9,238	$13,992	$7,753	$34,871	2%
$45,000 - $49,999	$2,741	$3,808	$11,092	$7,706	$20,364	1%
$50,000 and over	$416,644	$239,766	$246,261	$320,017	$1,494,978	73%
Total	$498,758	$328,701	$346,204	$420,648	$2,065,450	100%

* Current receiveables as of 1/31/11 are amounts due that are less than 4 days late. Current receivables are not included in deliquent percentage calculations in this table.

Source: OFC, SACC Program

IV. Collection Agency Use on Severely Delinquent Accounts

Use of collection service started in March 2008 with an initial $2.8 million in delinquencies assigned to a collection service on accounts dating as far back as 1999. To date, approximately $544,000 has been collected on that initial batch of accounts and over $1 million has been deemed uncollectable or recalled from the collection agency. During the course of this study, DOF and OFC have updated delinquent account policies and procedures and OFC has shown documented efforts to refer accounts to the collection service on a monthly basis.

To date, approximately $3.6 million in delinquent receivables has been referred to the county's contracted collection agency. Just under $1 million has been collected and $2.6 million awaits collection by the agent. Monthly collection rates are improving as accounts are routinely referred now to the agent at 90 days. The overall collection rate since March 2008 is 26%.

In the last two fiscal years, use of a collection service has reduced General Fund support by almost $600,000. The age of the delinquent accounts referred has an impact on collection rates. Accounts that are 3-12 years delinquent are more difficult to collect. With more routine referrals to the collection service, the support of the General Fund will be reduced further. Updated procedures are assisting staff in routine referrals to collection. In fiscal year 2011, monthly referrals to the collection agent on inactive accounts 90 days or older averaged approximately $40,000 per month.

Currently accounts referred to the collection service do not have any penalties for late payment or the cost of collection added to them. The county's current agreement with the collection contractor provides 20% of the amount collected in compensation. Virginia Code §58.1-3958 allows the county to impose collection agency fees (not to exceed 20% of the amount owed) on delinquent taxes and other charges. On May 11, 2010 the Board of Supervisors authorized county agencies in coordination with the Director of Finance to place delinquent non-tax accounts with a private collection agent and to recover the agent's collection fee from the person owing the charge to the county. The information presented to the Board at the time of this action included examples of non-tax accounts including the SACC Program. To date, OFC has referred delinquent accounts to the contracted agent but has not implemented the authority to recover the cost of collection. The costs associated with collection, over $100,000 in fiscal year 2009 and fiscal year 2010 combined, reduce the overall benefit of the collection service and further increase the support needed from the General Fund for the SACC Program.

V. Recommendations

- Continue to work on implementing the updated Department of Finance Billing and Collection Procedures. This will add 20% collection recovery to outstanding delinquencies and decrease General Fund support by approximately $60,000/year.

- Impose a late payment fee of 10%. SACC should develop policies determining the exact point within the first 20 days of delinquency to apply the penalty. Additionally, SACC should develop specific guidelines as to the waiver and adjustment of penalties.

  The imposition of the late fee will have several positive outcomes for the program.

  - Administrative staff time spent in tracking and resolving delinquent accounts will be reduced as the incentive to pay by the due date reduces the number of delinquencies
  - Prompt payment habits will reduce the number of accounts which develop significant delinquencies resulting in suspension of service and referral to the collection agency.
  - A late payment fee is estimated to generate approximately $399,497 in revenue per year, further reducing the demand on the General Fund.

EMERGENCY MEDICAL SERVICES TRANSPORT FEE REVENUE ANALYSIS

EMS (Emergency Medical Services) transport fees were implemented in April of 2005 after the recognition that health insurance providers anticipate such fees and pay them in whole or part on a regular basis. Fairfax County contracts with a private company to handle the EMS transport billing. The EMS program is overseen by Fairfax County Fire and Rescue. Patient care is the number one priority on all calls and insurance information is obtained unobtrusively, typically through the destination hospital. The EMS fee or any considerations of insurance coverage are never a factor in the dispatch or delivery of any EMS services.

Collection of the EMS fee reduces the demand on the County's General Fund (general taxpayer support) for EMS services. The County implemented the fee with a focus on insurance providers as the primary source of payments/revenue.

EMS fee payments consist primarily of insurance payments and a much smaller amount of direct payments from individuals. As is shown in the table below, EMS billings are now running in excess of $24 million a year. Collections as a percent of adjusted billings have ranged from 63.7% to 70.8%. Service billings are adjusted for insurance regulations, residency status, hardship and a variety of other causes.

	FY 2010	FY 2009	FY 2008	FY 2007	FY 2006
Service Billings	24,849,968	24,610,674	18,352,909	17,935,620	17,194,080
Mandatory Adjustments	4,379,769	4,014,283	2,051,026	2,525,305	2,079,632
Billings Net of Adjustments	20,470,199	20,596,391	16,301,883	15,410,315	15,114,448
Payments, Net of Refunds	14,494,970	14,436,511	11,368,951	10,818,320	9,628,268
Unpaid Balance	5,975,229	6,159,880	4,932,933	4,591,995	5,486,179
Bad Debt Write Off	7,518,788	3,446,236	3,757,584	2,957,248	781,185
Collections as a % of Adjusted Billings	70.81%	70.09%	69.74%	70.20%	63.70%

The program has experienced a significant level of bad debt write offs. These write offs ranged from under a million shortly after the program started in fiscal year 2006 to $7.5 million in fiscal year 2010. The fiscal year 2010 write off amount included aged accounts that were being removed due to a change in the private company contracted for insurance billings. The write off amounts above are in addition to insurance adjustments, hardship and several other categories of waivers.

The County started fiscal year 2011 with a new service provider for EMS billing. OFPA looked at the statistical performance for both the prior firm and the current firm when developing our analysis. The reporting and analytical review capabilities have been greatly enhanced through the new service provider's capabilities.

Medical insurance billing is a very specialized field. The contract with the new billing firm contains an incentive program aimed at maximizing the amount of the individual transport payments from the insurance providers. This is a very positive feature and will ultimately provide the County with an improved collection rate.

In looking at the hospitals which receive at least 175 patient transports per month, insurance information is missing on 36 to 58% of those patients after 48 days. With 160 days to collect information the trend shows some minor improvement with the range being 51 to 64%.

Service Month	Results Through	Elapsed Days		Alexandria	Fair Oaks	Fairfax Hosp	Mt Vernon	Reston Hosp	Springfield Health Plex	VA Hosp Center
Dec-10	**February 17, 2011**	**48**	**Run Count**	209	620	1746	480	491	268	175
			No Insurance	101	278	834	207	288	140	63
			% w/out Insurance Info.	48.33%	44.84%	47.77%	43.13%	58.66%	52.24%	36.00%
Sep-10	**March 9, 2011**	**160**	**Run Count**	215	586	1771	472	467	267	186
			No Insurance	133	299	910	249	299	140	101
			% w/out Insurance Info.	61.86%	51.02%	51.38%	52.75%	64.03%	52.43%	54.30%

Note: The service runs for these two samples are entirely different transactions.

The comparison is presented to see the trend in capturing insurance information after a longer period of time.

Within this statistical population are individuals without any insurance. The US Census reports the percentage of Virginians without health insurance between 2007 and 2009 as 13.4%. Other reports for 2009 show that in the 10th and 11th Congressional Districts approximately 12.3% of the population lacks health insurance. Based on the 2009 Census data 10.6% of the Fairfax County population did not have health insurance.

It should be noted that the population needing emergency medical transport does not necessarily correlate along the same statistical percentages as noted above. Fire and Rescue staff has taken note of heavy usage of emergency services among the county's indigent and homeless population. While it is difficult to project an exact amount of insurance coverage specifically for any group of individuals receiving EMS services, there is recognition that improvements in the acquisition and utilization of insurance information is a critical factor in increasing collections among the segment of the population which carries insurance.

The new insurance billing contractor and Fire and Rescue have already undertaken several initiatives to improve retrieval of patient insurance information through the local hospitals. Department staff acknowledges that more work is necessary to maximize payments by insurance carriers and increase savings to the General Fund.

Recommendations

- Fire and Rescue and OFPA are in accord that there are opportunities to increase collections through better insurance claim processing. A goal of a 5-10% increase in insurance collections has been agreed to. In fiscal year 2010 this would have resulted in an increase in collections of approximately $800,000.

- Fire and Rescue is developing a strategy to accomplish this goal. Capturing insurance information is a critical ingredient for the success of this goal and the desirability of limited term incentives for the insurance billing contractor to build more robust connectivity with local hospitals is being studied.

- OFPA also supports Fire and Rescue's efforts in identifying additional cost neutral resources to increase insurance collections including address verification from other county databases that will ultimately assist in retrieval of insurance information.

REIMBURSEMENT FOR POLICE SERVICES REVENUE ANALYSIS

During OFPA's revenue analysis this quarter, one revenue line item appeared inconsistent with a number reported in OFPA's previous Quarterly Report on overtime. OFPA followed up on this discrepancy and engaged in discussions with Police staff this quarter on the relationship between the reimbursable overtime expenses noted in OFPA's January Quarterly Report on overtime and the Police Reimbursement revenue noted by the Department of Management and Budget (DMB) in their General Fund Revenue Report.

In the General Fund Revenue Report obtained from DMB, Police Reimbursement is listed as a miscellaneous revenue charged for police service. This report listed the fiscal year 2010 year end prior to audit revenue total for Police Reimbursement as $897,967, a 48% difference from the fiscal year 2010 expenditure for reimbursable police service overtime noted in OFPA's January 2011 report. [7]

Through discussions with staff, it was determined that revenue from reimbursements for police service is posted to **Police Reimbursement** [8] as indicated on the revenue report but reported revenue does not include some key components of reimbursable overtime expense. Additional reimbursements for which overtime is worked are posted to separate accounts including grant accounts. In fiscal year 2010, reimbursable overtime revenue resulting from grants (not reported as **Police Reimbursement** revenue) amounted to $530,155. The balance of the difference noted between fiscal year 2010 revenue and expenditures remains under review at the time this report was published. OFPA anticipates updating the Audit Committee with additional information at the June 28th Audit Committee Meeting.

OFPA also discussed with department staff how police services are charged for reimbursement. The flat rate is determined annually in May by the Police Department in consultation with DMB for the next fiscal year. The last increase to the flat rate was in fiscal year 2008 when the rate was increased from $67 to $70 per hour.[9] For the committee's information the following is provided:

[7] *January 2011 OFPA Quarterly Report - Overtime Study* noted fiscal year 2010 expenditures for reimbursable overtime of $1,739,367 or 9% of all Pay Extra expenses for the department in that fiscal year.

[8] Police Reimbursement account reference: character 7, index 901108, subobject 0626

[9] One factor in calculating the flat rate is budgeted salary adjustments. Fiscal year 2010 and fiscal year 2011 saw no budgeted salary adjustments; therefore the adjustment factor in the calculation had no impact in the last two fiscal years. Fiscal year 2009 was the last year salary adjustments were a factor greater than zero in this calculation, however the adjustment impact was minimal as the flat rate remained the same as the year before.

FY 2010 and FY 2011 Flat Rate for Reimbursed Police Services						
Overtime Average for Police Services:						
		Pos. Count		Overtime Rate		
	Second Lieutenants	103		$66.8037		
	Sergeant	72		$61.6421		
	Master Police Officer	299		$60.8835		
	Police Officer II	710		$52.3698		
	Police Officer I	153		$40.2550		
	Total	1337	Average	$54.4513		
FY 2010 Adjustment:	Market Scale Adjustment		0.00%	$0.0000		
	Adjusted Total:			$54.4513	$54.45	...(a)
Fringe Benefit (excludes retirement):			13.35%	$7.2693	$7.27	...(b)
Indirect Cost Rate:			14.28%	$7.7757	$7.78	...(c)
Flat Fee Determination:			a + b + c =		$69.50	
DMB Approval:					$70.00 per hour	

Police reimbursement revenue remains under review. OFPA anticipates inclusion of additional information and possible recommendations in the next quarterly report to the committee.

TRANSPORTATION GRANTS REVIEW

I. Overview of County Transportation Grants

The County receives transportation grants from both federal and state agencies. Revenues from these grants are used for a variety of transportation projects, including roadway improvements, transit and parking facility construction, and trails maintenance. Each federal and state transportation grant may have many complex requirements regarding payment methods, project timelines, and allowable costs. To comply with federal audit and reporting requirements related to federal grant awards, the County prepares an annual Schedule of Expenditure of Federal Awards (SEFA) detailing federal grant expenditures for the fiscal year.[10]

Transportation grants are typically reimbursement-based, meaning the County pays for costs related to the grant project and then submits a request for reimbursement to the federal or state grantor. Under this type of grant arrangement, it is important to identify all eligible grant expenditures and request reimbursement as soon as possible to ensure that state and federal revenues offset the costs paid for with County funds.

Based on an analysis of the County's financial system, interviews with grant management staff, and a review of available grant documentation, OFPA identified at least 23 active transportation grants with an estimated total value of $83 million. The table on the following page summarizes the County's active transportation grants as of February 2011. The revenues and expenditures represent the reported amounts over the life of each grant.

[10] In accordance with the requirements set forth in *OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations*, the County must undergo annual audits of its federal grant expenditures.

Fairfax County Transportation Grants
Active as of February 2011

Grant Type	County Department	Grant Description	Grant Term	Grant Value (Estimate)	Reported Expenditures	Reported Revenues*
Federal	Public Works	CMAQ - Burke Center Parking Facility	2003-2012	28,381,974	23,372,329	21,952,593
Federal	Transportation	Richmond Highway Public Transportation	2010-2014	8,174,468	16,258	0
Federal	Transportation	Richmond Highway Transit Center	2010-2011	5,705,014	401	0
Federal	Transportation	Richmond Highway Transit Improvements	2006-2012	4,670,146	868,252	701,514
Federal	Transportation/Public Works	Herndon Monroe Parking Garage	2009-2012	4,560,968	2,242,508	1,762,750
State	Transportation	VNDIA: Telegraph Road-Beulah	2007-2012	4,250,000	316,694	884,639
State	Transportation/Public Works	Dulles Corridor Slip Ramps	2005-2011	3,900,000	3,900,000	2,449,374
Federal	Transportation	Base Closure and Realignment Commission	2008-2011	3,489,975	1,761,679	1,490,289
Federal	Police	Patrol Augmentation - Dulles Metrorail	2009-2014	3,418,531	544,616	319,962
Federal	Public Works	Trails Development	2008-2012	3,121,424	2,819,306	2,336,073
Federal	Police	I-95/495 Patrol Augmentation	2008-2011	2,695,979	536,572	491,999
Federal	Transportation	CMAQ - Bus Shelters	2000-2012	2,223,029	2,120,635	2,071,940
Federal	Transportation	Countywide Trails	2007-2014	2,000,000	380,538	144,509
Federal	Parks	Cross County Trail and Accotink Trail	2007-2011	2,000,000	1,824,224	1,824,224
Federal	Public Works	Seven Corners Transit Center	2005-2012	1,000,000	224,731	205,305
State	Transportation	Marketing and Ridesharing	2010-2011	700,000	404,853	379,337
State	Transportation	I-495 Hot Lanes TMP	2009-2013	680,000	26,236	0
Federal	Public Works	CMAQ - Route 29/I-66 Underpass	2003-2011	619,000	619,000	619,000
Federal	Public Works	Trails Development	2008-2010	366,680	366,680	47,395
Federal	Police	DMV Traffic Safety Programs	2010-2012	223,550	128,999	94,693
State	Transportation	Employee Outreach	2010-2011	203,410	124,155	100,247
State	Fire	MWAA Dulles Corridor - Tunnel Rescue	2009-2011	123,000	122,482	117,353
State	Transportation	Tysons Corner Bus Shelters	2010-2012	100,000	0	0
			TOTAL	**82,607,148**	**42,721,147**	**37,993,196**

Source: Expenditure and revenue information obtained from FAMIS.

* Includes accounts receivable and other revenue transactions without cash offsets.

II. Decentralized Transportation Grant Information

The County does not have a centralized repository for information and documentation related to transportation grants. At least seven different departments within the County manage and maintain transportation grant information and at least five of those departments are responsible for submitting requests for reimbursement to federal and state granting agencies. In addition, the County does not account for transportation grants in a consistent manner within its financial system, making it difficult to effectively identify and track revenues and expenditures related to transportation grants.

Prior to 2010, the Fairfax County Department of Public Works and Environmental Services (Public Works) was primarily responsible for managing most of the County's transportation grants. In July 2010, the Fairfax County Transportation Department (Transportation Department) and Public Works finalized the transition of transportation project management duties.[11] As part of the transition, the Transportation Department assumed responsibility for most of the County's transportation grants from July 2010 moving forward. In an effort to identify eligible expenditures for reimbursement and to close-out inactive grants, the Transportation Department continues to work with Public Works to locate documentation related to grant awards and expenditures prior to July 2010.

The County has a separate fund within its financial system to account for state and federal grants (Fund 102 – Federal/State Grant Fund). However, not all grants are included in the Federal/State Grants Fund. Some transportation grants are reported in the County's capital project funds, which include Fund 304 (Transportation Improvements), Fund 307 (Pedestrian Walkway Improvements), Fund 311 (County Bond Construction), and Fund 370 (Park Authority Bond Construction). Transportation grants in the capital project funds are included under general project codes and do not have separate grant identification numbers within the County's financial system. In addition, expenditures and revenues related to one transportation grant may be spread out over different projects and funds, which further complicates efforts to identify the information needed for effective grant management.

III. Improved Tracking and Accounting will Help Maximize Grant Revenues

As noted in the first section of our review, it is important to identify eligible grant expenditures and request reimbursement as soon as possible to maximize state and federal revenues that are available to offset the costs paid for with County funds. The results of our review indicated a lag between transportation grant expenditures and revenues, which is an indication that grant reimbursement requests are not being submitted in a timely manner. The County is in the process of developing and implementing a new financial system (FOCUS), which is scheduled to go live in July 2011. To prepare for the transition, County departments are identifying expenditures that are eligible for reimbursement and ensuring that grant billings to state and federal grantors are up-to-date. It is important for the new financial system to have controls in place to accurately, consistently, and completely account for financial information related to grants. It is also important to ensure that grant documentation and information is centralized within the departments that are responsible for managing the grants. This will help to ensure that the County submits timely and accurate reimbursements requests to federal and state grantors, thereby maximizing grant revenues and offsetting the costs that were paid for out of County funds.

[11] To further clarify the roles and responsibilities for capital projects related to transportation, the Transportation Department and Public Works entered into a Memorandum of Understating (MOU) in February 2011.

IV. Recommendations

- To effectively maximize state and federal revenues that are available to offset transportation grant costs paid for with County funds, the Fairfax County Transportation Department and Public Works should continue to coordinate efforts to track grant information and documentation, including grant award letters and Board items related to the approval of grants. In addition, the Transportation Department and Public Works should continue efforts to identify expenditures that are eligible for reimbursement, submit timely requests for reimbursement to federal and state grantors, and close-out inactive grants.

- The County should ensure that its new financial system, FOCUS, has controls in place to consistently and completely track financial information related to grants. For example, the new system should have a common identifier or field that ties applicable expenditures and revenues to a specific grant or project to help track billings, receivables, and payments. OFPA anticipates conducting a follow-up review after the full implementation of FOCUS to evaluate the status of our recommendations.

PRIOR STUDIES FOLLOW-UP

WIRELESS FACILITY LEASES ON COUNTY-OWNED PROPERTY

Several recommendations were made in the January 2011 Quarterly Report which in brief required the acquisition of true market data for wireless leases as well as consultative services for lease audits and lease terms. The information and services are to be shared on a collaborative and cost basis with the Public Schools and Park Authority. The Facilities Management Department (FMD) agreed with the recommendations and stated it would first seek to utilize firms with which the county had existing contracts in order to fulfill the recommendations and would coordinate with the Public Schools and Park Authority.

FMD has determined that the information and services are not available through firms with existing contracts. Therefore, the department is moving forward with a request for proposal as part of an open and competitive procurement process. The preparation time for this RFP might be several months in order to facilitate the coordination with the Public Schools and Park Authority.

OFPA will continue to monitor efforts toward completing the recommendations from this study.

2232 REVIEWS AND WIRELESS LEASES

While reviewing the January 2011 Quarterly Report with several members of the Board of Supervisors the question of obtaining market lease rate information on 2232 Telecommunication Land Use Applications was raised. The County Attorney's Office has determined that obtaining market lease information through the 2232 process is not relevant to the land use application and the county could not legally require telecommunications companies to provide the information in conjunction with a 2232 application.

In discussing the 2232 process with the Acting Director of the Department of Planning and Zoning, it was determined that the Planning Department's mapping staff could produce a map(s) based on existing 2232 wireless locations that would show the presence of wireless facilities in a given area. These maps will provide valuable information on existing sites and will assist FMD, Public Schools and Park Authority and eventually the market rate consultant in future negotiations.

BOARD OF EQUALIZATION – POLICY RECOMMENDATION

A recommendation was made in the October 2010 Quarterly Report for the Chairman of the Board of Equalization to put into policy his practice of avoiding a concentration of BoE members with prior local government tax experience on a single review panel. OFPA recommended that the BoE adopt a policy to specifically address membership on review panels thereby seeking to provide an equitable distribution of members by panel, taking into consideration overall qualifications, local government tax experience and professional real estate experience while maintaining the requirements of the Code of Virginia. At the time of the report the BoE Chairman concurred with the recommendation and stated he would place the policy change before the full Board in 2011 prior to the start of the tax season.

On March 3, 2011 this policy change was presented to and adopted by the Board of Equalization.

DEPARTMENT OF PUBLIC SAFETY COMMUNICATIONS (DPSC) – OVERTIME STUDY

It was noted as part of the Overtime Study in the January 2011 Quarterly Report that DPSC was a relatively new agency and was building its critical staffing levels. Building this staffing level was considered a critical step in reducing the department's future use of overtime compensation.

At the time of the January 2011 report the department had 19 vacant staff positions in the DPSC Operations Bureau. These vacancies were considered a significant cause of the departmental overtime in the prior report. While the 19 vacancies remain, DPSC has hired and is in the process of training fourteen new public safety communicators. Trainees start with 10 weeks of classroom training, then move to an additional 10 weeks of on the job training. Eight of the trainees were hired in January and six were hired in February.

OFPA will continue to monitor the vacancies in DPSC.

LIST OF ACRONYMS

AHI	Adjusted Household Income
BoE	Board of Equalization
CMAQ	Congestion Mitigation and Air Quality
DMB	Fairfax County Department of Management and Budget
DOF	Fairfax County Department of Finance
DPSC	Fairfax County Department of Public Safety Communications
DTP	Dulles Transit Partners
EMS	Emergency Medical Services
F&R	Fairfax County Fire and Rescue
FCPS	Fairfax County Public Schools
FFGA	Full Funding Grant Agreement
FMD	Facilities Management Department
FY	Fiscal Year
I-NET	Institutional Network
MWAA	Metropolitan Washington Airports Authority
OFC	Fairfax County Office for Children
OFPA	Fairfax County Office of Financial and Program Audit
PEG	Public, Educational, Governmental
SACC	School Age Child Care
SEFA	Schedule of Expenditures of Federal Awards
SSCD	Scheduled Substantial Completion Date
TMP	Transportation Management Plan
VNDIA	Virginia National Industrial Defense Authority
WFC	West Falls Church
WMATA	Washington Metropolitan Area Transit Authority